

Message Text

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ACTION EB-07

INFO OCT-01 ARA-06 ISO-00 SP-02 L-03 COME-00 TRSE-00 INT-05

GSA-01 EA-06 CIAE-00 INR-07 NSAE-00 IO-10 TAR-01

OPIC-03 XMB-02 OMB-01 /055 W
----- 003444

R 111700Z JUN 75
FM AMEMBASSY KINGSTON
TO SECSTATE WASHDC 7953

C O N F I D E N T I A L KINGSTON 2242

E.O. 11652: GDS
TAGS: EMIN, JM
SUBJECT: BAUXITE NEGOTIATIONS MAKE HASTE SLOWLY

1. KAISER METALS PRESIDENT CORNELL MAIER AND VICE PRESIDENT JAKE LINDEMUTH CALLED ON AMBASSADOR JUNE 10. THEY ARE IN JAMAICA IN AN EFFORT TO RESOLVE THE FEW OUTSTANDING ISSUES BETWEEN KAISER AND THE GOVERNMENT, AND TO PRESS FOR EARLY FINALIZATION AND SIGNATURE OF THEIR AGREEMENT. MAIER REPORTS THAT THE LAST OUTSTANDING ISSUE CONCERNING APPLICATION OF THE BAUXITE LEVY WAS RESOLVED IN THE COURSE OF HIS VISIT, AND THAT THE WAY IS NOW OPEN FOR FINALIZATION AND SIGNATURE. AS WE UNDERSTAND IT, THE HEADS OF AGREEMENT SPECIFIED THAT THE LEVY WAS DEFINED AS A PERCENTAGE OF INGOT (99.5 PERCENT PURE) PRICE, BUT LEFT IN DOUBT THE STATUS OF CERTAIN PRODUCTS THAT DON'T PASS THROUGH THE INGOT STAGE (PRIMARY ALUMINUM PRODUCTS) AND BEAR A HIGHER PRICE THAN INGOT. THIS POINT WAS MASKED BY MORE SERIOUS ISSUES AT THE TIME AND NEITHER SIDE PERCEIVED IT AS A PROBLEM. MOREOVER, MAIER CONCEDED THAT THE GOJ HAD A CASE SINCE THEY HAD DEVELOPED THEIR POSITION LARGEMLY ON THE BASIS OF INFORMATION IN SEC 10-K REPORTS WHICH DID NOT, AT THAT TIME, PROVIDE A COMPLETE PICTURE WITH REGARD TO PRIMARY ALUMINUM PRODUCTS. HE SAID HE HAD AGREED, THEREFORE, TO ACCEPT THE GOJ DEFINITION WHICH SHOULD MAKE A DIFFERENCE OF BETWEEN THREE AND FIVE MILLION DOLLARS A YEAR IN LEVY PAYMENTS BY KAISER.

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2. WITH THIS OBSTACLE REMOVED, THE ONLY HOLDUP IS DOUGLAS FLETCHER'S ABILITY TO GET FINAL LANGUAGE ON PAPER AND CLEAR IT WITH THE BAUXITE COMMISSION, ESPECIALLY MATALON AND ROUSSEAU, WHO HAVE BEEN DIFFICULT TO NAIL DOWN DUE TO TRAVEL AND OTHER COMMITMENTS.

3. ASKED IF KAISER WOULD MEET ITS MINIMUM TONNAGE REQUIREMENTS UNDER THE LAW THIS YEAR, MAIER RESPONDED THAT IT WOULD NOT, BUT THAT THE GOJ HAD AGREED TO REDUCTIONS BELOW THE MINIMUM PROVIDED KAISER REDUCED IMPORTS FROM OTHER SOURCES PROPORTIONATELY. MAIER SAID THAT AS A MATTER OF FACT KAISER HAD REDUCED IMPORTS FROM AUSTRALIA SOMEWHAT MORE THAN FROM JAMAICA. HE BELIEVED THAT OTHER PRODUCERS WOULD ALSO BE UNABLE TO MEET THEIR MINIMUM TONNAGE REQUIREMENTS, BUT THAT THE GOVERNMENT WOULD APPLY THE SAME FORMULA TO THEM.

4. MAIER REPORTED NO CHANGE IN INVESTMENT PLANS AND COMMITMENTS, THOUGH HE EXPRESSED DOUBT AS TO WHETHER THE GOVERNMENT'S AMBITIOUS ALUMINA REFINING PLANS WOULD EVER BE REALIZED. HE POINTED OUT THAT THE BASIC 600 THOUSAND TON PLANT WOULD COST JAMAICA ALONE IN THE NEIGHBORHOOD OF 300 MILLION DOLLARS, AND SAID THAT THE SAME RESULT COULD BE ACHIEVED AT A FRACTION OF THE COST BY INCREASING THE CAPACITY OF EXISTING PLANTS, ESPECIALLY ALCOA'S AND ALCAN'S. HE SAID HE WAS SUGGESTED THIS COURSE TO THE GOVERNMENT.

5. AMBASSADOR DISCUSSED ALCOA'S SITUATION WITH LOCAL MANAGER PAUL CROUCH PREVIOUS EVENING. CROUCH SAID THAT THE INTERNATIONAL CENTER FOR THE SETTLEMENT OF INDUSTRIAL DISPUTES (ICSID) WAS SCHEDULED TO HAND DOWN A DECISION THIS MONTH ON THE ISSUE OF ITS OWN JURISDICTION WITH REGARD TO BAUXITE DISPUTES IN JAMAICA, AND THAT HE EXPECTED IT TO BE FAVORABLE TO ALCOA. ARMED WITH THIS DECISION, ALCOA WAS THEN PREPARED TO SIT DOWN WITH THE GOVERNMENT AND NEGOTIATE. CROUCH INDICATED THAT, IN THE LAST ANALYSIS, ALCOA WOULD NOT WANT TO BE THE LAST LITTLE INDIAN, MUCH LESS THE LAST OF THE MOHICANS, AND WOULD PROBABLY SETTLE FOR SOMETHING LIKE THE KAISER FORMULA.

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AMBASSADOR SAID HE WAS GLAD TO HEAR THIS, BUT NOTED SOME INCONSISTENCY BETWEEN CROUCH'S VIEWS AND THE NOISE THAT SEEMED TO COME OUT OF PITTSBURGH.

6. CROUCH SAID THAT NONE OF THE COMPANIES WOULD BE ABLE TO MEET THEIR MINIMUM TONNAGE REQUIREMENTS THIS YEAR, AND PUT THE AVERAGE CUTBACK AT 28 PERCENT, BUT HE DID NOT FEEL THAT THE GOVERNMENT WOULD REQUIRE PAYMENTS ON THE BASIS

OF MINIMUMS GIVEN THE DEMAND SITUATION. ALCOA HAS REQUESTED RELIEF UNDER THE FORCE MAJEURE CLAUSE OF THE LAW AND IS CONFIDENT IT WILL BE GRANTED. ALCOA HAS ALREADY INDICATED IT IS CUTTING BACK PROPORTIONATELY IN OTHER SOURCE COUNTRIES.

7. ALCAN BEGAN ITS PHASE II NEGOTIATIONS WITH THE GOJ ON JUNE 9. ALCAN'S TEAM BEING LED BY PRESIDENT OF ALCAN JAMAICA JACQUES GAGNON WHO IS SUPPORTED BY LEGAL AND TECHNICAL EXPERTS FROM MONTREAL. FIRST DAY'S MEETING WAS DESCRIBED AS A "PRELIMINARY SKIRMISH" BY GAGNON, WHO PROMISED TO KEEP US INFORMED AS NEGOTIATIONS PROGRESS.

8. COMMENT: THOUGH KAISER REPS NOW TEND TO BRUSH ASIDE THE ARGUMENT OVER APPLICATION OF THE LEVY AS A TECHNICAL DISAGREEMENT, IT APPARENTLY WAS IMPORTANT ENOUGH TO BRING CORNELL MAIER TO JAMAICA, AND HIS ACCEPTANCE OF THE GOJ DEFINITION IS A POTENTIALLY EXPENSIVE CONCESSION MADE TO PROTECT KAISER'S LONG-TERM RELATIONSHIP WITH THE GOJ AND CLEAR THE WAY TO SIGN THEIR PARTNERSHIP AGREEMENT. ALCOA'S POSITION IS, AS USUAL, AMBIGUOUS. APPARENTLY THEY MEAN TO NEGOTIATE IN GOOD FAITH WHEN THE TIMES COMES, BUT FROM THE STRONGEST POSITION THEY CAN POSSIBLY DEVELOP. THE ALCAN NEGOTIATION BEARS WATCHING SINCE THE ISSUE OF THE DISPOSITION OF ALUMINA REFINERIES IS LIKELY TO BE CENTRAL TO IT. THIS ISSUE HAS BEEN SIDE-STEPSSED THUS FAR EVEN IN THE CASE OF REVERE BUT COULD BE CRITICAL FOR US SINCE MOST OPIC COVERAGE PERTAINS TO REFINERIES, ESPECIALLY THOSE OF ALCOA AND ALPART.
GERARD

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Message Attributes

Automatic Decaptoning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: BAUXITE, BUSINESSMEN, MEETING AGENDA, AGREEMENTS, NEGOTIATIONS, DIPLOMATIC DISCUSSIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 11 JUN 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: greeneet
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975KINGST02242
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750204-0190
From: KINGSTON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750662/aaaacdzo.tel
Line Count: 145
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: greeneet
Review Comment: n/a
Review Content Flags:
Review Date: 06 MAY 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <06 MAY 2003 by BoyleJA>; APPROVED <25 SEP 2003 by greeneet>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: BAUXITE NEGOTIATIONS MAKE HASTE SLOWLY
TAGS: EMIN, JM, KAISER METALS, (LINDEMUTH, JAKE), (MAIER, CORNELL)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006